

Chapter 1

Why Publish an Annual Report?

ASSOCIATIONS ARE powerful forces in our society. They have existed in this country since the first communities grew large enough for people to band together to protect hard-earned freedoms from government meddling, advance their members' common interests, and alleviate social or economic ills. Alexis de Tocqueville ([1835] 1945, p. 342) noted that association members, as enlightened members of the community, "cannot be disposed of at pleasure or oppressed without remonstrance"; by defending their rights and interests against the interference of government, he said, these associations save "the common liberties of the country."

The word *association* is used in this book to mean an organization of people who have an interest in common; it does not convey the more specialized meaning often assigned to it in the nonprofit world, where it denotes a banding together of several nonprofit organizations. And, although the word *association* can refer to trade associations of businesses that have common interests, this book focuses on nonprofit associations that have charitable or cultural missions.

Despite the important role that associations play in American society, they are neither highly visible nor well understood. When we consider that 70 percent of Americans belong to at least one association (Sheets, 1999), this invisibility is astonishing. The work of associations is often accomplished with little fanfare or notice: they are so busy doing their work, they don't have time to talk about it, and those associations that may have the time may not have the funds to publicize their work. Even with ample funding and plenty of time, however, some associations believe that precious funds should not be devoted to self-promotion. Lack of visibility may not be critically important to associations that are entirely supported by membership dues, but nonprofits that must raise funds to support their work know that a little self-promotion can go a long way toward keeping the association afloat and functioning.

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Why use an annual report to promote the organization? Why not spend precious resources on a book, a magazine, a newsletter, or, better yet, a Web site? All these vehicles play key roles in a nonprofit's overall communications strategy, and many have multiple purposes that include informing, educating, and enlisting support.

Indeed, as we shall see, some nonprofits have taken the approach of publishing the annual report in an issue of the association's magazine, or as a special issue of that periodical, and many nonprofits publish their annual reports on their Web sites (see Chapter Eleven). But the annual report has some distinct advantages over other forms of communication. For example, annual reports are shorter and less comprehensive than books. That makes them more appealing to all but the minority of readers, as rare as giant pandas in the wild, who want to know absolutely everything that can be known about the organization.

Magazines or newsletters, of course, are also shorter than books. In these publications, however, the need to distinguish the publisher's "spin" from factual reporting makes them less than ideal vehicles for showcasing the organization's work. To avoid confusing readers, nonprofits that use their magazine or newsletter to make annual financial disclosures usually also create a strong visual distinction between the periodical's regular copy and the copy that belongs to the annual report. Even so, there is a slight risk of alienating subscribers who expect the association's magazine or newsletter to be—or at least appear to be—objective rather than self-promotional. And good annual reports always promote.

A Web site, at first glance, may seem to be the ideal vehicle for the succinct, highly visual content of an annual report. A current major drawback of this approach—although times are changing—is that a Web site lacks the personal touch: it is one thing to give a prospective donor an annual report that can be perused at leisure; it is quite another to invite a donor to find out about the organization by logging on to its Web site.

Given the limitations inherent in magazines, newsletters, and Web sites, it is no wonder that the nonprofit organization's annual report often plays a special role in the organization's overall communications strategy. We'll explore that strategic role in the section that follows.

Strategic Role of the Nonprofit Organization's Annual Report

In the tools they employ to communicate—Web sites, press releases, special reports, magazines and newsletters, "sales" brochures and other advertising, conferences, annual reports—nonprofits share many vehicles with cor-

porations. Some of these vehicles—special reports, magazines, journals, newsletters, books—have an objective focus in the sense that the organizational bias is not apparent. Other communications tools—press releases, sales pieces and other advertising, conferences—have a more subjective emphasis and are clearly intended to present the organization in the best light. Two of these tools—the Web site and the annual report—successfully combine factual reporting with organizational self-promotion.

Needless to say, the larger the nonprofit, the greater the number of communications tools it can afford to employ. Some large organizations, such as the National Geographic Society, Ducks Unlimited, and the National Wildlife Federation, have their own television productions. Other nonprofits, small and newly formed, are obliged to concentrate their communications in order to conserve their resources (see Table 1.1).

Small and large organizations alike must have, at the very minimum, a brochure or a one-page handout that explains who they are, why they were founded, what they do, how they are funded, and how people can become members or offer other kinds of support. A Web presence is de rigueur in the Internet Age, and this information can be put on the organization's Web site. (The Web site of a small group, of course, need not be as sophisticated as that of a larger, more established organization.) That said, the organization still needs an informational piece to answer "snail mail" inquiries from the public and to give to job applicants, prospective donors, and business and political contacts.

The same information could be provided at greater cost in the organization's annual report, but an annual report must do more than provide general information. For example, only the annual report discloses funding sources and covers what the organization did with donors' funds during the year covered by the report. Of course, simply mailing audited financial statements to donors, or making copies of IRS forms available to them, could save money, time, and aggravation. But the annual report can play a role larger than the one required by law.

Legal Requirements

The Securities and Exchange Act of 1933, which emerged from the stock market crash of 1929, regulates publicly held, for-profit corporations (those that have shareholders) by holding them accountable to strict requirements for reporting and financial disclosure. Financial disclosures are necessary to protect public investors from poor or illegal business practices. Corporations must make annual audited financial disclosures to their shareholders by a certain date.

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TABLE 1.1

Communications Tools Needed by Small to Large Nonprofits

Type of Tool	Small	Medium	Large	Comments
Web site	Yes	Yes	Yes	The size and complexity can vary greatly, depending on resources.
Annual report	Yes	Yes	Yes	Ditto. Also publish a Web version.
Information brochure	Yes	Yes	Yes	Ditto.
Press release	Yes	Yes	Yes	Also publish on the Web.
Direct-mail appeals	Maybe	Yes	Yes	Can generate new members and revenue. Also put appeals on the Web.
Newsletter (external)	Maybe	Maybe	Maybe	Consider whether this information can be more cheaply disseminated on the Web.
Newsletter (internal)	No	Maybe	Maybe	Consider whether this information can be more cheaply disseminated by meetings and memos or on an intranet.
Intranet	No	Maybe	Yes	Especially useful in organizations with far-flung field offices.
Conference program	Maybe	Maybe	Maybe	Consider only if the organization holds conferences.
Magazine	No	No	Maybe	Magazines are expensive and labor-intensive and should be considered only if they can be supported by advertising.
Journal	Maybe	Maybe	Maybe	Consider only if the organization's mission is to publish research or educational materials.
Books	Maybe	Maybe	Maybe	Ditto.
Book list/catalog	Maybe	Maybe	Maybe	Consider only if the organization publishes books and sells them. Also put on Web site.
Special reports	Maybe	Maybe	Maybe	Depends on the organization's mission.
Fund-raising case statement	Maybe	Maybe	Yes	Useful when seeking a large number of major donors; otherwise, can be expensive and time-sensitive.
Public service ads	Maybe	Maybe	Yes	Nothing ventured, nothing gained—but placement and timing are not optimum and the ads may never appear.
Paid advertising	Maybe	Maybe	Yes	If funds permit, go for it.
Merchandise catalog	No	No	Maybe	Can be a source of scarce nonrestricted revenue.
TV productions	No	No	Maybe	Ditto.
Radio productions	No	No	Maybe	Ditto.

The various stock exchanges have different requirements for when the annual reports of member corporations must be delivered to shareholders (usually 10 to 15 days before the annual meeting of shareholders, and 90 to 120 days after the close of the fiscal year). Corporations' annual financial disclosures must also meet various state requirements.

On the nonprofit side, the Internal Revenue Service requires charities that solicit funds within the United States, that have gross receipts of at least \$25,000, and that are not controlled by churches or religious orders to file Form 990, "Return of Organization Exempt from Income Tax." The 990 form—much like an annual report, although in a much more standardized format—gives comprehensive information about a charity's program activities, finances, and governance.

In most states in this country, nonprofits that want to raise money are required by state solicitation bureaus to produce audited financial statements. This requirement may apply only to organizations whose annual revenues exceed a certain limit (say, \$100,000); the limit depends on the state. To gain the seal of approval of watchdog groups like the BBB Wise Giving Alliance (a merger of the National Charities Information Bureau and the Council of Better Business Bureaus), a charity is also required to publish an annual report. The nonprofit annual report serves as the organization's description of its activities for the year and should offer more detail than what is provided on the IRS Form 990: the 990 cannot substitute for either a good annual report or financial statements audited by an independent certified public accountant.

Simply mailing the audited financial statements to donors or making Form 990 available to them would save money, time, and aggravation, but someone had a better idea. In 1959, Litton Industries produced the first annual report that packaged corporate financial data in a glossy, colorful booklet. Investors liked this newfangled report because it told them about more than the company's financial condition. A packaged annual report gives stockholders of corporations, and members and donors of nonprofit organizations, a more complete picture of operations, products (or results), and plans for the future, through the eyes of the person at the top (Potlatch Corporation, 1994).

The CEO's Baby

Whether it is issued by a public corporation or by a nonprofit association, the annual report, more than any other publication or communication vehicle, expresses the personality, philosophy, vision, and taste of the CEO. Herring

(1990, p. 9), discussing the corporate annual report's importance to CEOs, points out that the way in which they are presented to their stockholders and to the public is of great interest to these executives. The CEO is the one who signs the executive message. The CEO's picture is right next to that message, and the remainder of the report talks about the company's successes and failures.

Kathryn Fuller, president and chief executive officer of World Wildlife Fund, takes a similar view of the annual report's importance. "The annual report is always the most important stand-alone communications vehicle of the year. It is our signature piece," she says, because "we don't have a magazine that conveys core messages to key constituents." The core message may take a different form from one year to the next, Fuller says, but "our 'take home' message is basically the same: Conservation is an urgent cause. The challenges are enormous, yet World Wildlife Fund is making significant headway with the help of its supporters."

The nonprofit association's supporters are fundamentally its investors, and so it is logical that there will be many similarities between the annual report produced by a nonprofit organization and a corporate annual report. Whereas corporations must satisfy the reporting requirements imposed by the Securities and Exchange Commission and must produce their annual reports by a fixed deadline, nonprofit organizations face their own set of challenges.

The Challenge for Nonprofits

Annual reports are expensive. Getting the most for your money may be as important for nonprofits as it is for corporations, but nonprofit budgets can be tight.

Because the annual report is published once every twelve months, it may seem that there is a whole year available to get it out. In reality, however, no one can devote full time to one publication, even one as crucial as an annual report. Moreover, the feast-or-famine nature of publications in the nonprofit world usually means that crunch time for the annual report is also crunch time for several other urgent publications. That's why it usually takes nine to fifteen months of intensive concentration, from conception to birth, to produce an annual report. Yet a nonprofit's staff tends to be small; and imagine the effort it takes in order for this document, essentially produced by a committee, to speak with one voice, engage, inform—even entertain—and still come out on time. Especially important is what the annual report says, and how it says it. Therefore, management pays

scrupulous attention to every word and image, and so do many of the report's readers.

The people responsible for writing and producing annual reports say that one of the biggest challenges they face is lack of time. "My biggest problem in putting out the annual report for the New Israel Fund was getting the report out on time," says Gilbert Kulick, who published two reports for that organization. "We would plan for mid-June, but then there would be delays getting the audited financials, and the report didn't come out until July or even early September."

Jennie Ziegler, director of external relations and corporate secretary for the Ethics Resource Center, reports a similar experience. "I would like to have more time to do the report because I believe it is key," she says. "Theoretically, it could be completed in two months, but it gets pushed off for other, more pressing deadlines."

Why, apart from the legal requirements, must the nonprofit annual report come out by a particular deadline? As long as the report comes out annually, why not just start writing and editing it when there is time, and publish it when everyone is satisfied with the copy? For one thing, many annual reports are tied to the annual meeting of the board and serve as reports to the board. Therefore, they must be published in time for that meeting. For another, nonprofit annual reports are often vehicles for generating financial contributions.

The Annual Report as a Fund-Raising Tool

Annual reports that come out in the summer, when hearts turn to vacations, or that reach donors' mailboxes in the spring, right after the taxman cometh, are not going to produce the same generous impulse as reports issued in the fall or winter. Thanks to the Internal Revenue Service, people tend to think about charitable contributions only at certain times—usually before the close of the tax year, when the spirit of giving shines most brightly. "Our report needs to come out in mid-fall," says World Wildlife Fund's Kathryn Fuller, "just in time for end-of-year fund raising."

A survey of corporate annual reports conducted by the Potlatch Corporation (1995) shows that 70 percent of investment portfolio managers used annual reports to make investment decisions. Nonprofit annual reports are likewise an excellent tool for attracting future members or donors. Between a report's covers can be found information about what the organization does, what it has accomplished during the past year, who manages and governs it, what the organization does with its donors' money,

and who its current supporters are. (There's nothing like seeing the names of current donors to prompt the feeling of being only a few hundred dollars away from seeing one's own name in such august company.)

M'Annette Ruddell, associate director for donor communications at the American Friends Service Committee, says that the association's annual report brings in \$400,000 to \$500,000 each year. Likewise, approximately \$220,000 in donations received by World Wildlife Fund in 1999 could be directly traced to the organization's 1998 annual report, according to WWF's development staff. But tracking the funds raised by the annual report can be problematic if the report is part of another publication. (As already mentioned, some nonprofits publish their annual reports as special issues of periodicals that they already produce; for example, the Environmental Law Institute featured the full text of its 1998 annual report in the May-June 1999 issue of *Environmental Forum*, and the Trust for Public Land devoted the Fall 1999 issue of its magazine, *Land and People*, to the organization's 1999 annual report.)

The Annual Report as a Financial Disclosure Document

Members and donors need to know how their support is helping the organization carry out its mission and what portion of donated funds is devoted to administrative costs. Watchdog agencies also rate charitable nonprofits according to their stewardship of funds and the portion of devoted to administrative costs. The Council of Better Business Bureaus (CBBB) has established standards to promote ethical practices by charities, which it calls "soliciting organizations." With regard to the use of funds, the CBBB's standards require that "a reasonable percentage of total income from all sources shall be applied to programs and activities directly related to the purposes for which the organization exists" (Council of Better Business Bureaus, 1999). Reasonable use of funds requires that

At least 50 percent of total income from all sources be spent on programs and activities directly related to the organization's purposes

At least 50 percent of public contributions be spent on the programs and activities described in solicitations, in accordance with donor expectations

Fund-raising costs not exceed 35 percent of related contributions

Total fund-raising and administrative costs not exceed 50 percent of total income [Council of Better Business Bureaus, 1999]

Financial disclosure also gives nonprofits an opportunity to show supporters and potential supporters at first hand how the organization compares to other nonprofits engaged in similar work. Unlike corporations, nonprofits tend not to compete overtly with colleagues engaged in similar work, but they certainly can use the annual report to build their image.

The Annual Report as an Image Builder

Respondents to the 2000 Potlatch survey of corporate annual reports ranked the annual report fourth among the most important communications resources available to a company (after a Web site, analyst conferences, and press coverage), and a survey conducted earlier (Potlatch Corporation, 1995) reveals that nearly 80 percent of securities analysts, portfolio managers, and individual investors thought they could learn something from reading a company's annual report. Nonprofit investors no doubt share the same views. How well the report is designed, written, and produced speaks volumes about the organization's self-image.

"The image we portray in the annual report is important," says Jim Wilson, associate publisher for the Boy Scouts of America. "We send copies to each member of Congress, the top executives of the Fortune 500, and to the top seventeen charitable organizations in the United States."

But, according to M'Annette Ruddell of the American Friends Service Committee, image building can also pose problems for the association that has a need to explain its mission, but whose core principles do not embrace self-promotion:

Every year, we try to shrink that distance between the bureaucracy in Philadelphia and the work in the field and bring home to the reader why we really exist. We exist for that child in a Kosovo refugee camp. We exist for that Asian American kid in San Francisco who is suffering from violence or that woman in West Virginia who has two children and no education, whose husband has abandoned them. We give her a dictionary and some paper so that she can get her G.E.D. But we also must try to interpret this story in a modest and not too prideful way.

Even when the organization's image is portrayed as eloquently as Ruddell has done it, the careful reader may feel the need to understand the organization's track record over time. Are the organization's principals real professionals, or are they rank amateurs? Do they tell a straight story, or do they slant it? Do they actually accomplish anything, or do they seem to be making the same claims over and over again? One need only check previous annual reports to find the answers, and that's why the nonprofit annual report serves yet another useful purpose: as an archival record.

The Annual Report as an Archival Record

According to the Potlatch Corporation (1995), the shelf life of an annual report is longer than the period in which it is initially read. Reports are frequently filed for future reference and are even shared among colleagues and friends.

“People save our report,” says Kathryn Fuller of World Wildlife Fund. “We spend a lot of time and money on getting good nature photography, but it’s worth it because people keep the report as a daily reminder of our work.”

Aside from the obvious appeal of any photos they may contain, there are other reasons to keep an organization’s annual reports. Who originally served on the board? Has the board’s size or role changed over time? How much has the organization grown in the years since it was founded? Has the organization stuck to its original mission, or does it seem to be suffering from “mission creep”? Have key staffers steadily advanced in their careers, or are there signs of heavy job turnover? Are administrative costs held in check from year to year, or are they also creeping up? Because the nonprofit annual report presents a year-to-year description of the organization’s work, it becomes the organization’s official history.

Financial progress, for example, can be detected in a comparison of the 1997 and 1998 annual reports of the Consultative Group on International Agricultural Research (CGIAR). In 1997, the executive secretary, Alexander von der Osten, reported that “in 1996, funding was \$304 million and in 1997, \$320 million” (Consultative Group on International Agricultural Research, 1997, p. 5). In 1998, he reported that “funding for the CGIAR’s research grew from \$320 million in 1997 to \$340 million in 1998” (Consultative Group on International Agricultural Research, 1998, p. 7).

Because many donors target their support, a year-to-year comparison of annual reports will indicate whether progress has been made or whether the story remains basically unchanged. In the 1998 annual report of the Christian Children’s Fund, for example, the story about its work in Angola reported that \$1.5 million had been spent to help children affected by the civil war and that a war-trauma training program had trained 4,511 caregivers to help “children who are unaccompanied, displaced, orphaned, and those demonstrating psychosocial problems due to exposure to violence” (Christian Children’s Fund, 1998, p. 2). By 1999, it was clear that some progress had been made: the same story about Angola reported that \$1.7 million in assistance had been devoted to helping children in that war-torn country and that the fund had trained 5,158 caregivers (Christian Children’s Fund, 1999, p. 3). Activities described (but not quantified) in the 1998 annual report as including “the rehabilitation and construction of schools, community kindergartens

and child centers" (Christian Children's Fund, 1998, p. 2) took more concrete form in the 1999 report: "Additionally, the program has built or rehabilitated seven community kindergartens and 14 primary schools, three soccer fields, and one playground" (Christian Children's Fund, 1999, p. 3).

As fund raiser, financial disclosure tool, image builder, and archival record, the nonprofit annual report must please many audiences. The key word here is *please*, for the annual report is uniformly upbeat and positive, even when delivering bad news (see Chapter Five). The challenge for the editor is to fulfill these many purposes and satisfy the report's multiple audiences by assembling the various players needed to make the report into a coherent yet succinct whole.